



15 February 2008

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Dear Mr Dempster,

Gas Outage and Contingency Management Arrangements – Supplementary

Introduction

1. Mighty River Power welcomes the opportunity to comment on the Gas Industry Co's (GIC's) Supplementary Consultation Paper "Gas Outage and Contingency Management Arrangements", December 2007. Mighty River Power also welcomes the GIC's decision to engage in a supplementary round of submissions. This is desirable where material changes in policy are made or there are outstanding issues that may be contentious.
2. Due to resource constraints Mighty River Power regrettably has only been able to make a limited submission on this matter.
3. No part of our submission is confidential and we are happy for it to be made publicly available.

Avoiding deadlock in the preparation of OCMP

4. Mighty River Power agrees with the GIC that it should avoid developing arrangements where a deadlock could develop between the GIC and the TSO over the OCMP, and that the GIC should have the power to make amendments to an OCMP.
5. This directly parallels the views we expressed on the code development process under the proposed Gas Transmission Access Regulations 2007. Mighty River Power draws the GIC's attention to section 6 of our submission on the "Transmission Access Framework", 21 December 2007.
6. Mighty River Power **recommends** that the GIC adopt Mighty River Power's proposed code development process under the draft Gas Transmission Access Regulations 2007 into draft Gas (Outage and Contingency Management) Regulations 2008.

Critical contingency price

7. The Supplementary Consultation Paper stated that:¹

The Statement of Proposal incorporated a set of criteria for an industry expert to take into account in determining the Critical Contingency Price. Submissions highlighted some deficiencies in this area. It is now proposed to replace the criteria with an overarching principle to the effect that "*the gas contingency price must be set at a level that reflects the price that would be established by an efficient short-term market that allocated scarce gas resources to the highest value uses during the critical contingency.*"

When setting the Critical Contingency Price, the industry expert will need to take into account the prices in the electricity wholesale market during the critical contingency and the economic costs of the loss of supply to consumers who have had their gas supply curtailed.

8. Mighty River Power considers the proposed direction provided to the Industry Expert on pricing is too vague. We appreciate the difficulties in establishing a robust set of pricing principles and urge the GIC to undertake more work in this area.
9. We are also of the view that electricity prices should only be used to determine a contingency price in the absence of an effective short term gas market. The industry and the Regulations should not lose sight of this.

Critical contingency thresholds

10. Mighty River Power is comfortable, at this point in time, with the GIC's existing proposal that "those with the necessary expertise to propose the thresholds but with the necessary checks and balances (from other industry participants, the expert adviser and Gas Industry Co) to ensure the thresholds are workable for all participants".²
11. The GIC should ensure that the operation of the critical contingency thresholds is transparent. The GIC should monitor the approach(es) taken and determine whether regulation should be considered in the future.

Other comments

12. Mighty River Power agrees that defining contingency imbalances should be on a sub-day period, and the feasibility of this should be examined further. The GIC's analysis is well considered. With regard to question 7, Mighty River Power does not agree that in the case of a regional contingency there is no advantage to putting in place arrangements that would require payments between shippers. For instance, there could be a transmission restriction affecting Vector's northern pipeline. There is significant electricity generation on this pipeline and the parties that reduce load for the benefit of maintaining linepack for others should be compensated. However, the GIC's argument seems reasonable if there is a regional contingency that does not affect major plant. Payment could be based on changes in the shipper's mismatch position, but this would require further investigation.

¹ Executive Summary.

² Executive Summary.

13. Mighty River Power is comfortable with the GC's proposals for invoicing arrangements, information provision and cost recovery. Mighty River Power also supports the GIC's option "to provide in the Compliance regulations for Gas Industry Co to obtain urgent orders from the Rulings Panel."³

Concluding remarks

14. If you have any queries regarding this submission please do not hesitate to contact me (on 09 308 8259 or robert.allen@mightyriver.co.nz) or Duncan Jared, Mighty River Power's Gas Portfolio Manager (on 09 308 8290 or duncan.jared@mightyriver.co.nz).

Yours sincerely,

Robert Allen

Regulatory Manager

³ Executive Summary.